

ESCALANTE CITY
FINANCIAL STATEMENTS
JUNE 30, 2006

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Kimball & Roberts

Certified Public Accountants

A Professional Corporation

Box 663

Richfield, Utah 84701

Phone 896-6488

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
Escalante City
Escalante, Utah 84726

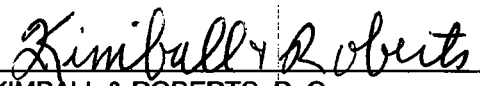
We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Escalante City as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Escalante City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Escalante City as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2006, on our consideration of Escalante City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 3 through 12 and 42 through 44 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.


KIMBALL & ROBERTS, P. C.
Certified Public Accountants

October 4, 2006
Richfield, Utah

ESCALANTE CITY MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2006

This discussion of Escalante City's financial performance provides an overview of the City's financial activities for the year ending June 30, 2006. This report is in conjunction with the City's financial statements.

The purpose of the City is to provide general services to its residents which includes general government, public safety, highways, parks and recreation.

Financial Highlights

- * The assets of Escalante City exceeded its liabilities as of the close of the most recent year by \$3,826,679 (net assets). Of this amount, \$467,887 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- * The government's total net assets decreased by \$70,328. The revenues were less than the adopted budgeted amounts, and expenditures were less than the adopted budgeted amounts.
- * At the close of the current year, the Escalante City governmental fund reported ending fund balance of \$246,964, a decrease of \$71,830 in comparison with the prior year. Approximately 14 percent of this total amount, \$34,135, is available for spending at the government's discretion (unreserved fund balance).
- * At the end of the current year, unreserved fund balance for the general fund was \$34,135, or 14 percent of total general fund expenditures.
- * Escalante City's total debt decreased by \$112,000 during the current year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Escalante City's basic financial statements. Escalante City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of Escalante City's finances, in a manner similar to a private sector business.

The *statement of net assets* presents information on all of Escalante City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Escalante City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of Escalante City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges.

The governmental activities of Escalante City include general government, public safety, highways and parks and recreation. The business-type activity of Escalante City is the utility fund, containing water and sewer services.

Refer to the table of contents for the location of the government-wide financial statements.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Escalante City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Escalante City can be divided into two categories: governmental funds and enterprise funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statement, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balance of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Escalante City maintains one governmental fund, the general fund, which is always a major fund.

Escalante City adopts an annual appropriated budget for all its general fund. A budgetary comparison statement has been provided to demonstrate legal compliance with the adopted budget.

Refer to the table of contents for the location of the basic governmental fund financial statements.

Proprietary Funds

Escalante City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. Escalante City uses an enterprise fund to account for its water and sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise fund is considered a major fund of Escalante City.

Refer to the table of contents for the location of the basic proprietary fund financial statements.

Notes To The Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are part of the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning Escalante City.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Escalante City, assets exceeded liabilities by \$3,826,679 at the close of the most recent fiscal year.

By far the largest portion of Escalante's net assets (80 percent) reflects its investment in capital assets (e.g. land, buildings, machinery, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. Escalante uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although Escalante's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Escalante City's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and Other Assets	250,652	320,572	566,419	516,674	817,071	837,246
Capital Assets	1,069,152	1,113,076	2,914,311	3,027,836	3,983,463	4,140,912
Total Assets	1,319,804	1,433,648	3,480,730	3,544,510	4,800,534	4,978,158
Long-Term Liabilities	19,290	17,873	824,000	1,052,000	843,290	1,069,873
Other Liabilities	3,688	1,778	126,877	9,500	130,565	11,278
Total Liabilities	22,978	19,651	950,877	1,061,500	973,855	1,081,151
Net Assets:						
Invested in Capital Assets						
Net of Related Debt	1,069,152	1,113,076	1,974,311	1,966,336	3,043,463	3,079,412
Restricted	212,829	278,712	102,500	97,500	315,329	376,212
Unrestricted	14,845	22,209	453,042	419,174	467,887	441,383
Total Net Assets	1,296,826	1,413,997	2,529,853	2,483,010	3,826,679	3,897,007

A portion of Escalante City's net assets (8 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$467,887, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the year, Escalante City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Governmental Activities

Governmental activities decreased Escalante City's net assets by \$117,171. Key elements of this decrease follows:

- * Road Project for \$134,000.

Escalante City's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program Revenues:						
Charges for Services	60,071	27,571	329,495	326,807	389,566	354,378
Operating Grants	103,777	50,513			103,777	50,513
Capital Grants	-	334,883	-	-	-	334,883
General Revenues:						
Property Taxes	90,434	87,149	-	-	90,434	87,149
Other Taxes	165,383	154,784	-	-	165,383	154,784
Grants and Contributions						
Not restricted	-	-	-	-	-	-
Gain on Sale of Assets	-	13,113	-	-	-	13,113
Unrestricted Investment						
Earnings	28,993	17,155	-	-	28,993	17,155
Other	-	-	-	2,000	-	2,000
Total Revenues	448,658	685,168	329,495	328,807	778,153	1,013,975
Expenses:						
General Government	240,168	217,369	252,945	272,179	493,113	489,548
Public Safety	82,241	35,883	-	-	82,241	35,883
Highways	238,168	79,596	-	-	238,168	79,596
Parks and Recreation	5,252	5,742	-	-	5,252	5,742
Interest on Long-Term Debt	-	-	29,707	33,931	29,707	33,931
Total Expenses	565,829	338,590	282,652	306,110	848,481	644,700
Increase in Net Assets Before Transfers	(117,171)	346,578	46,843	22,697	(70,328)	369,275
Transfers	-	-	-	-	-	-
Increase in Net Assets	(117,171)	346,578	46,843	22,697	(70,328)	369,275
Net Assets - Beginning	1,413,997	1,067,419	2,483,010	2,460,313	3,897,007	3,527,732
Net Assets - Ending	1,296,826	1,413,997	2,529,853	2,483,010	3,826,679	3,897,007

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services.

Business-Type Activities

Business-type activities increased Escalante City's net assets by \$46,843, accounting for 100 percent of the growth in the government's net assets.

Financial Analysis of the Government's Funds

As noted earlier, Escalante City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of Escalante City's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing Escalante City's financing requirements. In particular *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the year.

At the end of the year, Escalante City's governmental fund reported ending fund balance of \$246,964 a decrease of \$71,830 in comparison with the prior year. Approximately 14 percent of this amount, \$34,135 constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed: 1) to highways and public improvements, \$210,000; 2) landfill postclosure, \$2,829.

The general fund is the chief operating fund of Escalante City. At the end of the current year, unreserved fund balance of the general fund was \$34,135, while total fund balance reached \$246,964. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 7 percent of total general fund expenditures, while total fund balance represents 47 percent of that same amount.

Proprietary Funds

Escalante City's proprietary fund provides the same type of information found in the government-wide financial statements but in more detail.

Unrestricted net assets of the enterprise fund at the end of the year was \$453,042. Other factors concerning the finances of this fund has already been addressed in the discussion of Escalante City's business type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget of \$233,204 can be briefly summarized as follows:

- | | |
|---|----------------------------------|
| * \$59,276 increase in general government | * \$139,231 increase in highways |
| * \$33,917 increase in public safety | * \$780 increase in parks |

Of this increase, nothing was funded out of prior year unreserved fund balance. At year end actual revenues were less than budgeted revenues by \$137,106, and actual expenditures were less by \$65,276, resulting in a net decrease of \$71,830.

Capital Asset and Debt Administration

Capital Assets

Escalante City's investment in capital assets for its governmental activities as of June 30, 2006, was \$1,069,152 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, equipment and infrastructure, which includes roads, highways and bridges. The total increase in Escalante City's investment in capital assets for the current year was \$24,650. Major capital asset events during the current year included the following:

- * Airport improvements for \$24,650

Escalante City's Capital Assets
(net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	61,100	61,100	154,744	154,744	215,844	215,844
Water Shares			54,000	54,000	54,000	54,000
Infrastructure	76,200	92,200	-	-	76,200	92,200
Buildings	134,300	140,500	-	-	134,300	140,500
Improvements Other than Buildings	765,552	783,276	2,656,267	2,763,792	3,421,819	2,763,792
Equipment	32,000	36,000	49,300	55,300	81,300	91,300
Total	1,069,152	1,113,076	2,914,311	3,027,836	3,983,463	3,357,636

Additional information on Escalante City's capital assets can be found in the notes to the financial statements.

Long -Term Debt

At the end of the current year, Escalante City had total long-term debt outstanding of \$959,290. The debt represents compensated absences at June 30, 2006 of \$19,290 and revenue bonds of \$940,000.

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Long-Term Debt	19,290	17,873	940,000	1,052,000	959,290	1,069,873

State statutes limit the amount of general obligation debt a governmental entity may issue to 12 percent of its total fair market value of taxable property in the City. The current debt limitation for the City is approximately \$4,700,000. The City has no general obligation debt.

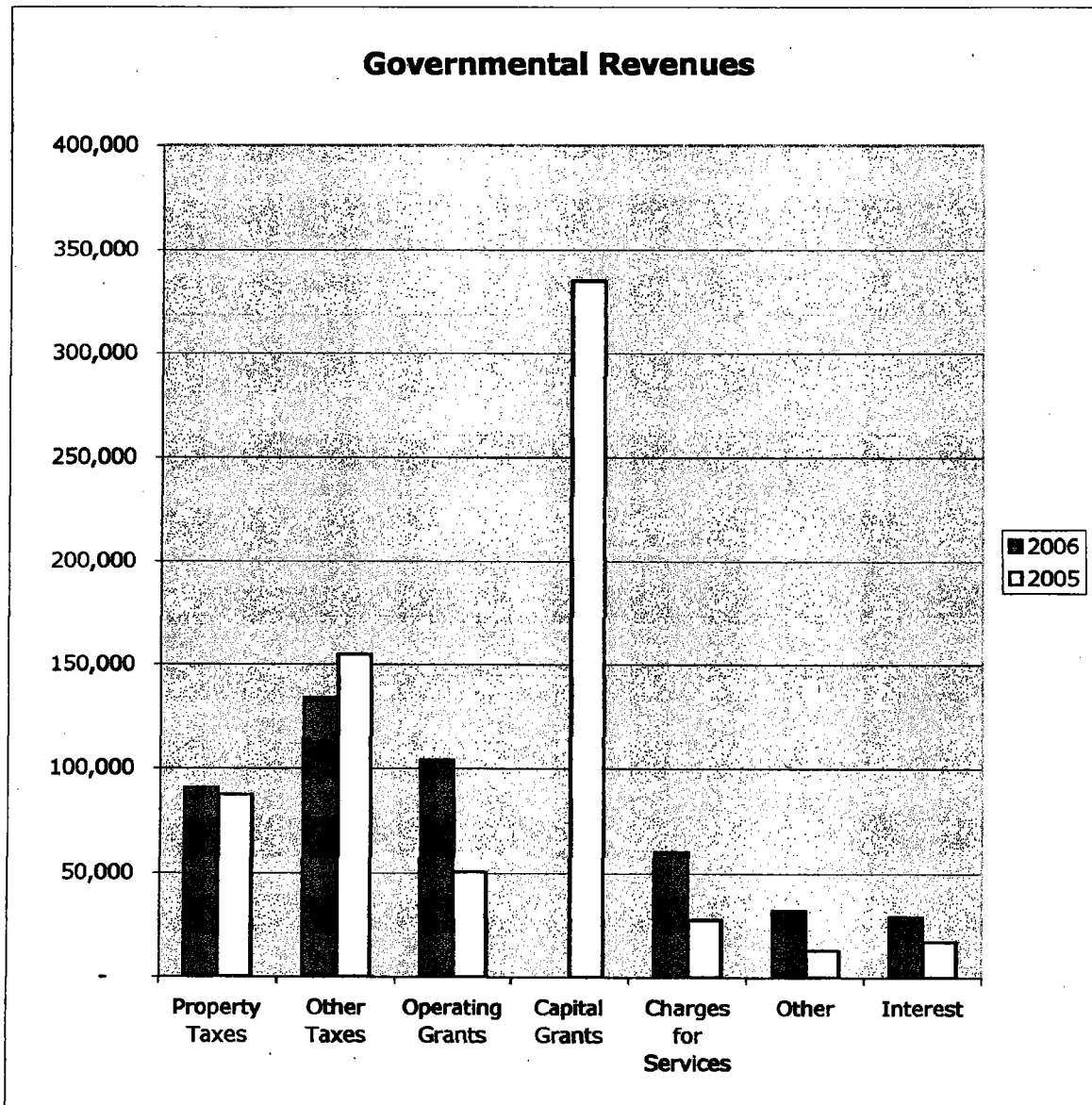
Additional information on the City's long-term debt can be found in the notes of the financial statements.

Request for Information

This financial report is designed to provide a general overview of Escalante City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Escalante City Recorder, P.O. Box 189, Escalante, Utah, 84726.

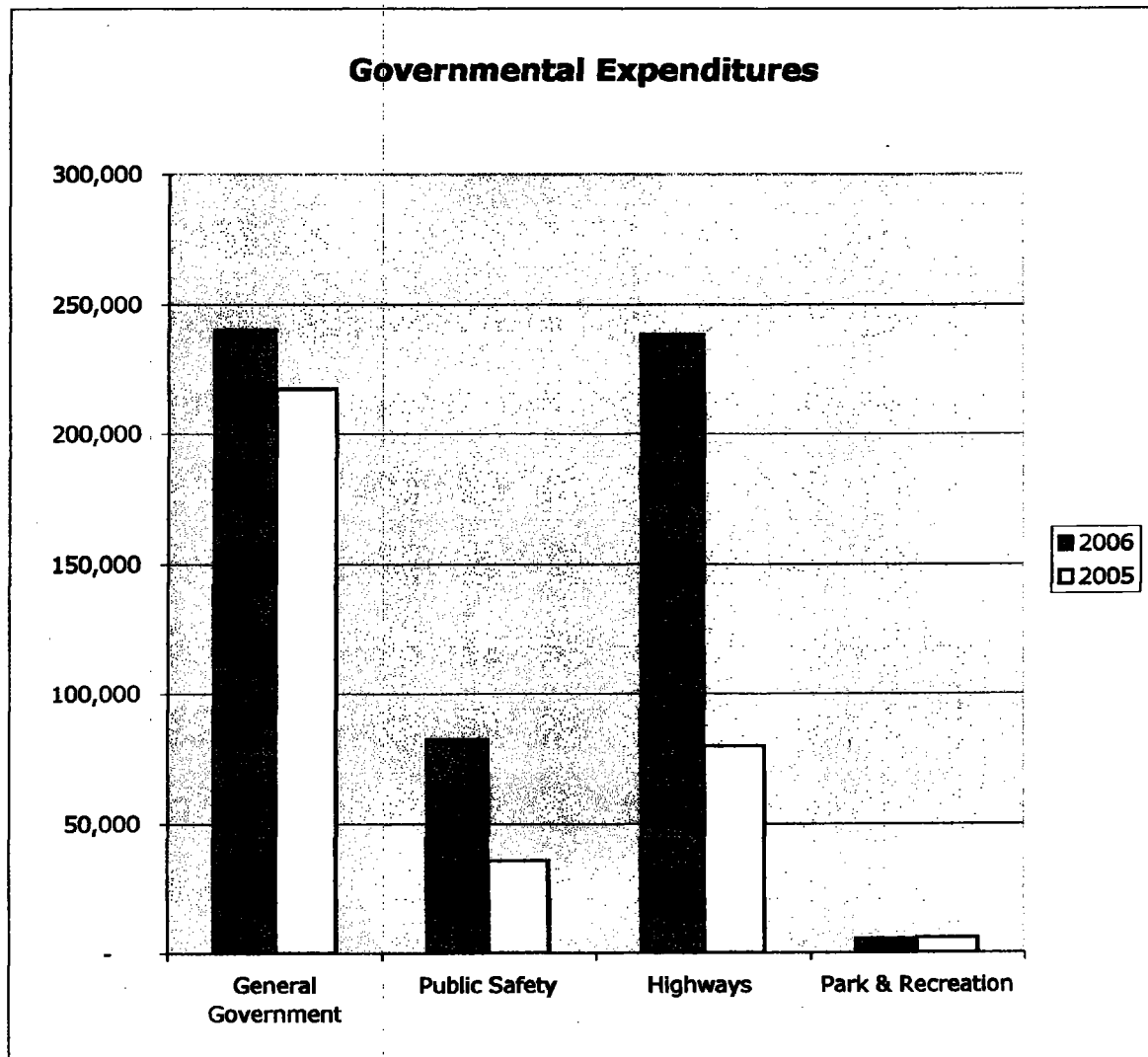
Escalante City
Governmental Revenues
For The Fiscal Years Ending June 30, 2006 and 2005

	2006	2005
Property Taxes	90,434	87,149
Other Taxes	133,482	154,784
Operating Grants	103,777	50,513
Capital Grants	-	334,883
Charges for Services	60,071	27,571
Other	31,901	13,113
Interest	28,993	17,155
Total Revenues	448,658	685,168



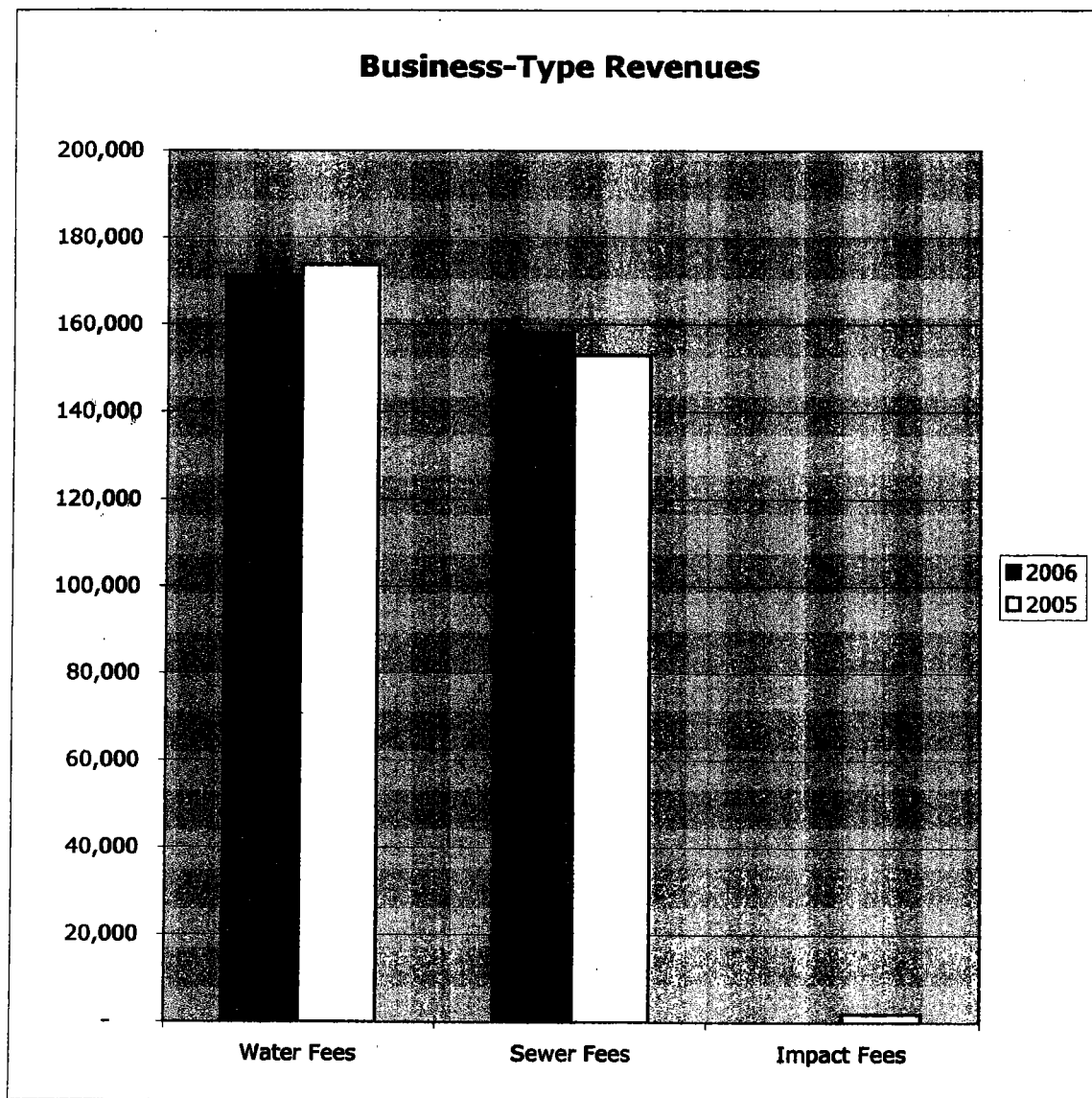
Escalante City
Governmental Expenditures
For The Fiscal Years Ending June 30, 2006 and 2005

	2006	2005
General Government	240,168	217,369
Public Safety	82,241	35,883
Highways	238,168	79,596
Park & Recreation	5,252	5,742
Total Expenditures	565,829	338,590



**Escalante City
Business-Type Revenues
For The Fiscal Years Ending June 30, 2006 and 2005**

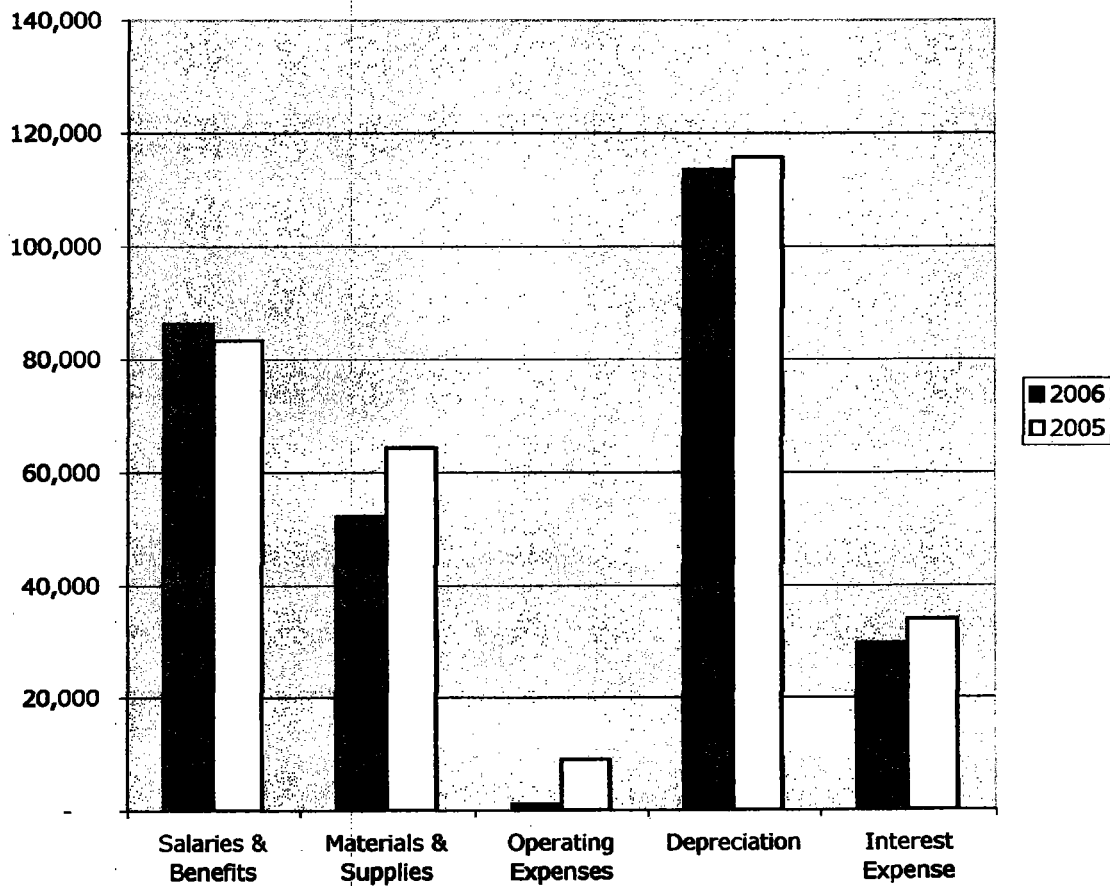
	2006	2005
Water Fees	171,304	173,759
Sewer Fees	158,191	153,048
Impact Fees	-	2,000
Total Revenues	329,495	328,807



Escalante City
Business Type Expenditures
For The Fiscal Years Ending June 30, 2006 and 2005

	2006	2005
Salaries & Benefits	86,336	83,293
Materials & Supplies	52,062	64,237
Operating Expenses	1,022	8,924
Depreciation	113,525	115,725
Interest Expense	29,707	33,931
Total Expenditures	282,652	306,110

Business-Type Expenditures



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is used to assist in formatting, for easier reading)

BASIC FINANCIAL STATEMENTS

**ESCALANTE CITY
STATEMENT OF NET ASSETS**

June 30, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	234,504	395,952	630,456
Accounts Receivable (Net)	1,309	67,967	69,276
Due From Other Government Units	12,010	-	12,010
Total Current Assets	247,823	463,919	711,742
Noncurrent Assets:			
Restricted Cash and Cash Equivalents	2,829	102,500	105,329
Capital Assets (Net of Accumulated Depreciation):			
Land	61,100	154,744	215,844
Water Shares	-	54,000	54,000
Buildings	134,300	-	134,300
Improvements	765,552	-	765,552
Equipment	32,000	49,300	81,300
Water Distribution Center	-	1,223,542	1,223,542
Sewer System	-	1,432,725	1,432,725
Infrastructure	76,200	-	76,200
Total Noncurrent Assets	1,071,981	3,016,811	4,088,792
TOTAL ASSETS	1,319,804	3,480,730	4,800,534
LIABILITIES			
Current Liabilities:			
Accounts Payable	3,688	1,977	5,665
Accrued Interest Payable	-	8,900	8,900
Revenue Bonds Payable - Due Within One Year	-	116,000	116,000
Total Current Liabilities	3,688	126,877	130,565
Noncurrent Liabilities:			
Revenue Bonds Payable - More Than One Year	-	824,000	824,000
Compensated Absences	19,290	-	19,290
Total Noncurrent Liabilities	19,290	824,000	843,290
TOTAL LIABILITIES	22,978	950,877	973,855
NET ASSETS			
Investment in Capital Assets, Net of Debt	1,069,152	1,974,311	3,043,463
Restricted For:			
Bond Retirement	-	102,500	102,500
Class C Road	210,000	-	210,000
Landfill	2,829	-	2,829
Unrestricted	14,845	453,042	467,887
TOTAL NET ASSETS	1,296,826	2,529,853	3,826,679
TOTAL LIABILITIES AND NET ASSETS	1,319,804	3,480,730	4,800,534

The notes to the financial statements are an integral part of this statement.

ESCALANTE CITY
STATEMENT OF ACTIVITIES

For The Fiscal Year Ended June 30, 2006

Function/Programs Primary Government: Governmental Activities:	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets	
		Charges for Operating Grants/Capital Grants/ Services Contributions Contributions		Primary Government	
		Governmental Activities	Business-Type Activities	Governmental Activities	Total
General Government	240,168	60,071	-	(180,097)	(180,097)
Public Safety	82,241	-	-	(50,237)	(50,237)
Highways and Public Improvements	238,168	32,004	-	(181,165)	(181,165)
Parks and Recreation	5,252	57,003	-	9,518	9,518
Interest on Long-Term Debt	-	14,770	-	(29,707)	(29,707)
Total Governmental Activities	565,829	60,071	103,777	(401,981)	(431,688)
Business-Type Activities:					
Water and Sewer	252,945	329,495	-	76,550	76,550
Total Primary Government	818,774	389,566	103,777	(401,981)	(355,138)
General Revenues:					
Property Taxes				90,434	90,434
Fee-In-Lieu of Property Taxes				16,421	16,421
Other Taxes				19,101	19,101
Sales Taxes				97,960	97,960
Franchise Fees				31,901	31,901
Unrestricted Investment Earnings				28,993	28,993
Total General Revenues and Transfers				284,810	284,810
Change in Net Assets				(117,171)	(70,328)
Net Assets - Beginning				1,413,997	3,897,007
Net Assets - Ending				1,296,826	3,826,679

The notes to the financial statements are an integral part of this statement.

**ESCALANTE CITY
BALANCE SHEET - GOVERNMENTAL FUNDS**

For The Fiscal Year Ended June 30, 2006

	<u>General Fund</u>
ASSETS	
Cash and Cash Equivalents	237,333
Accounts Receivable (Net)	1,309
Due From Other Government Units	<u>12,010</u>
TOTAL ASSETS	<u><u>250,652</u></u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts Payable	<u>3,688</u>
Total Liabilities	<u>3,688</u>
Fund Balances:	
Reserved For:	
Landfill Postclosure	2,829
Class "C" Road	210,000
Unreserved, Reported In:	
General Fund	<u>34,135</u>
Total Fund Balance	<u>246,964</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>250,652</u></u>

The notes to the financial statements are an integral part of this statement.

ESCALANTE CITY
BALANCE SHEET RECONCILIATION TO STATEMENT OF NET ASSETS

June 30, 2006

Total Fund Balances - Governmental Fund Types	246,964
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:

Land	61,100	
Buildings	134,300	
Improvements	765,552	
Equipment	32,000	
Infrastructure	<u>76,200</u>	
 Total		 1,069,152

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:

Compensated Absences	<u>(19,290)</u>
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Net Assets of Government Activities	<u><u>1,296,826</u></u>
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ESCALANTE CITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For The Fiscal Year Ended June 30, 2006

	<u>General Fund</u>
Revenues:	
Taxes	255,817
Licenses and Permits	4,083
Intergovernmental Revenue	103,777
Fines and Forfeitures	34,036
Interest	28,993
Miscellaneous Revenues	<u>21,952</u>
Total Revenues	<u>448,658</u>
Expenditures:	
Current:	
General Government	192,494
Public Safety	80,811
Highways and Public Improvements	218,168
Parks and Recreation	4,365
Capital Outlay	<u>24,650</u>
Total Expenditures	<u>520,488</u>
Net Change In Fund Balance	(71,830)
Fund Balance - Beginning	<u>318,794</u>
Fund Balance - Ending	<u><u>246,964</u></u>

The notes to the financial statements are an integral part of this statement.

ESCALANTE CITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For The Fiscal Year Ended June 30, 2006

Amounts reported for governmental activities in the statement of activities
are different because:

Net Changes in Fund Balances - Total Governmental Funds	(71,830)
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Governmental funds report capital outlays as expenditures. However, in
the statement of activities the cost of those assets is allocated over their
estimated useful lives and reported as depreciation expense. This is the
amount by which capital outlays exceeded depreciation in the current period:

Capital Outlays	24,650	
Depreciation Expense	<u>(68,574)</u>	
Total		(43,924)

Some expenses reported in the statement of activities do not require the
use of current financial resources and, therefore, are not reported as
expenditures in governmental funds:

Compensated Absences	<u>(1,417)</u>
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Changes In Net Assets of Governmental Activities	<u><u>(117,171)</u></u>
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**ESCALANTE CITY
STATEMENT OF NET ASSETS
PROPRIETARY FUND**

June 30, 2006

	Business-Type Activity Enterprise Fund		
	Water System	Sewer System	Total
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	165,634	230,318	395,952
Accounts Receivable	45,060	22,907	67,967
Total Current Assets	210,694	253,225	463,919
Noncurrent Assets:			
Investments - Restricted:			
Bond Reserves	68,500	34,000	102,500
Capital Assets: (Net of Accum. Depreciation)			
Land	4,000	150,744	154,744
Water Shares	54,000	-	54,000
Water and Sewer Systems	1,223,542	1,432,725	2,656,267
Equipment	24,650	24,650	49,300
Total Noncurrent Assets	1,374,692	1,642,119	3,016,811
TOTAL ASSETS	1,585,386	1,895,344	3,480,730
LIABILITIES:			
Current Liabilities:			
Accounts Payable	1,640	337	1,977
Bond Interest Payable	4,300	4,600	8,900
Bonds Payable - Current Portion	40,000	76,000	116,000
Total Current Liabilities	45,940	80,937	126,877
Noncurrent Liabilities:			
Bonds Payable - Long-Term Portion	433,000	391,000	824,000
TOTAL LIABILITIES	478,940	471,937	950,877
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	833,192	1,141,119	1,974,311
Restricted for Bond Reserves	68,500	34,000	102,500
Unrestricted	204,754	248,288	453,042
TOTAL NET ASSETS	1,106,446	1,423,407	2,529,853
TOTAL LIABILITIES AND NET ASSETS	1,585,386	1,895,344	3,480,730

The notes to the financial statements are an integral part of this statement.

ESCALANTE CITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND

June 30, 2006

	Business-Type Activity Enterprise Fund		
	Water System	Sewer System	Total
Operating Revenues:			
Charges for Sales and Services:			
Water	171,304	-	171,304
Sewer	-	158,191	158,191
Total Operating Revenues	<u>171,304</u>	<u>158,191</u>	<u>329,495</u>
Operating Expenses:			
Salaries and Wages	47,738	15,924	63,662
Fringe Benefits	16,690	5,984	22,674
Materials and Supplies	39,819	12,243	52,062
Utilities	453	262	715
Other Charges	154	153	307
Depreciation	51,700	61,825	113,525
Total Operating Expenses	<u>156,554</u>	<u>96,391</u>	<u>252,945</u>
Operating Income	<u>14,750</u>	<u>61,800</u>	<u>76,550</u>
Nonoperating Revenues (Expenses):			
Interest Expense	(12,376)	(17,331)	(29,707)
Total Nonoperating Revenues (Expenses)	<u>(12,376)</u>	<u>(17,331)</u>	<u>(29,707)</u>
Change in Net Assets	2,374	44,469	46,843
Total Net Assets - Beginning	<u>1,104,072</u>	<u>1,378,938</u>	<u>2,483,010</u>
Total Net Assets - Ending	<u><u>1,106,446</u></u>	<u><u>1,423,407</u></u>	<u><u>2,529,853</u></u>

The notes to the financial statements are an integral part of this statement.

**ESCALANTE CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND**

June 30, 2006

	Business-Type Activity Enterprise Fund		
	Water System	Sewer System	Total
Cash Flows From Operating Activities:			
Receipts From Customers	190,147	152,964	343,111
Payments to Suppliers	(55,776)	(18,605)	(74,381)
Payments to Employees	(47,738)	(15,924)	(63,662)
Net Cash Provided by Operating Activities	86,633	118,435	205,068
Cash Flows From Capital and Related Financing Activities:			
Principal Paid on Capital Debt	(39,000)	(73,000)	(112,000)
Interest Paid on Capital Debt	(12,376)	(17,331)	(29,707)
Net Cash Provided (Used) by Capital and Related Financing Activities	(51,376)	(90,331)	(141,707)
Net Increase (Decrease) in Cash and Cash Equivalents	35,257	28,104	63,361
Cash and Cash Equivalents - Beginning	198,877	236,214	435,091
Cash and Cash Equivalents - Ending	234,134	264,318	498,452
Reconciliation of Operating Income to Net Cash Provided (Used) By Operating Activities:			
Operating Income	14,750	61,800	76,550
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) By Operating Activities:			
Depreciation	51,700	61,825	113,525
Increase (Decrease) in Operating Assets:			
Accounts Receivable	18,843	(5,227)	13,616
Accrued Liabilities	1,340	37	1,377
Total Adjustments	71,883	56,635	128,518
Net Cash Provided (Used) by Operating Activities	86,633	118,435	205,068

The notes to the financial statements are an integral part of this statement.

ESCALANTE CITY
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Escalante City conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies:

The accompanying basic financial statements present the financial position of various fund types and the results of operations of the various fund types. The basic financial statements are presented for the year ended June 30, 2006.

The following is a summary of the more significant policies:

A. Reporting Entity

Escalante City is a municipal corporation in Garfield County, Utah. It is governed by an elected mayor and five member council. As required by generally accepted accounting principles, these financial statements are of the primary government, Escalante City, the reporting entity. The City has no component units.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., statement of net assets and statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

ESCALANTE CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting as are the proprietary fund and the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, Escalante City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenues items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Government reports the following Proprietary Funds:

The Water and Sewer Fund accounts for the activities of the City utility funds operation. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer Funds are charges to customers for services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

ESCALANTE CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity

Deposits and Investments:

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to invest in obligations of the U. S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Investment Pool.

Investments for the government, as well as for its component units, are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Capital Assets:

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

ESCALANTE CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

Water System	35 - 40 Years
Machinery and Equipment	5 - 10 Years

Long-Term Obligations:

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.

In the fund financial statement, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, if any, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity:

In the fund financial statements, governmental funds report reservations of fund balance for amounts not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represent tentative management plans that are subject to change.

E. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

F. Property Taxes:

Property taxes are assessed and collected for the City by Garfield County and remitted to the City shortly after collection. Property taxes become a lien on January 1 and are levied on the first Monday in August. Taxes are due and payable on November 1, and are delinquent after November 30. All dates are in the year of levy.

ESCALANTE CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Budgets and Budgetary Accounting:

Annual budgets are prepared and adopted by ordinance by total for each department, in accordance with State law, by the Mayor and City council on or before June 22 for the following Fiscal year beginning July 1. Estimated revenues and appropriations may be increased or decreased by resolution of the City Council at any time during the year. A public hearing must be held prior to any proposed increase in a fund's appropriations. Budgets include activities in the General Fund. The level of the City's budgetary control (the level at which the Town's expenditures cannot legally exceed appropriations) is established at the department level. Each department head is responsible for operating within the budget for their department. All annual budgets lapse at fiscal year end.

Utah State law prohibits the appropriation of unreserved General Fund balance to an amount less than 5% of the General Fund revenues. The 5% reserve that cannot be budgeted is used to provide working capital until tax revenue is received, to meet emergency expenditures, and to cover unanticipated deficits. Any unreserved General Fund balance greater than 18% of the next year's budgeted revenues must be appropriated within the following two years.

Once adopted, the budget may be amended by the City council without hearing provided the budgeted expenditures do not exceed budgeted revenues and appropriated fund balance. A public hearing must be held if the budgeted expenditures will exceed budgeted revenues and any fund balance which is available for budgeting. With the consent of the Mayor, department heads may reallocate unexpended appropriated balances from one expenditure account to another within that department during the budget year. Budgets for the General Fund are prepared on the modified accrual basis of accounting. Encumbrances are not used.

NOTE 2 - DEPOSIT AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Investments".

Deposits:

At year end, the carrying amount of the City's deposits was \$31,577 and the bank balance was \$46,059. All of the bank balance was covered by federal depository insurance. Utah State statutes do not require deposits to be collateralized, however, financial institutions must be approved by the State Money Management Council. Petty cash was \$100.

ESCALANTE CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 2 - DEPOSIT AND INVESTMENTS (CONTINUED)

Cash and investments as of June 30, 2006, consist of the following:

	<u>Fair Value</u>
Cash On Hand	100
Demand Deposits	31,577
Investments - PTIF	<u>704,108</u>
Total Cash and Investments	<u>735,785</u>

Cash and investments listed above are classified in the accompanying government-wide statement of net assets as follows:

Governmental Activities - Unrestricted	234,504
Governmental Activities - Restricted	2,829
Business-Type Activities - Unrestricted	395,952
Business-Type Activities - Restricted	<u>102,500</u>
Total Cash and Cash Equivalents	<u>735,785</u>

The Utah Money Management Act (UMMA) established specific requirements regarding deposits of public funds by public treasurers. UMMA requires that City funds be deposited with a qualified depository which includes any depository institution which has been certified by the Utah State Commissioner of Financial Institutions as having met the requirements specified in UMMA Section 51, Chapter 7. UMMA provides the formula for determining the amount of public funds which a qualified depository may hold in order to minimize risk of loss and also defines capital requirements which an Institution must maintain to be eligible to accept public funds. UMMA lists the criteria for investments and specifies the assets which are eligible to be invested in, and for some investments, the amount of time to maturity.

UMMA enables the State Treasurer to operate the Public Treasurer's Investment Pool (PTIF). PTIF is managed by the Utah State Treasurer's investment staff and comes under the regulatory authority of the Utah Money Management Council. This council is comprised of a select group of financial professionals from units of local and state government and financial institutions doing business in the state. PTIF operations and portfolio composition is monitored at least semi-annually by Utah Money Management Council. PTIF is unrated by any nationally recognized statistical rating organizations.

ESCALANTE CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 2 - DEPOSIT AND INVESTMENTS (CONTINUED)

PTIF operations and portfolio composition is monitored at least semi-annually by Utah Money Management Council. PTIF is unrated by any nationally recognized statistical rating organizations. Deposits in PTIF are not insured or otherwise guaranteed by the State of Utah. Participants share proportionally in any realized gains or losses on investments which are recorded on an amortized cost basis. The balance available for withdrawal is based on the accounting records maintained by PTIF. The fair value of the investment pool is approximately equal to the value of the pool shares.

Deposits in PTIF are not insured or otherwise guaranteed by the State of Utah. Participants share proportionally in any realized gains or losses on investments which are recorded on an amortized cost basis. The balance available for withdrawal is based on the accounting records maintained by PTIF. The fair value of the investment pool is approximately equal to the value of the pool shares.

Deposits and investments for local government are governed by the Utah Money Management Act (Utah Code Annotated, Title 51, Chapter 7, "the Act") and by rules of the Utah Management Council ("the Council"). Following are discussions of the local government's exposure to various risks related to its cash management activities.

Custodial Credit Risk:

Deposits - Custodial credit risk for deposits is the risk that in the event of a bank failure, the local government's deposits may not be recovered. The local government's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the local government to be in a qualified depository, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. As of June 30, 2006, \$0 of the local government's bank balances of \$46,059 were uninsured and uncollateralized.

Credit Risk:

Credit risk is the risk that the counterparty of an investment will not fulfill its obligations. The local government's policy for limiting the credit risk of investments is to comply with the Money Management Act.

The local government is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances.

ESCALANTE CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 2 - DEPOSIT AND INVESTMENTS (CONTINUED)

For the year ended June 30, 2006, the local governments has investments of \$704,108 with the PTIF. The entire balance had a maturity less than one year. The PTIF pool has not been rated.

Interest Rate Risk:

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The local government manages its exposure to declines in fair value by investments mainly in the PTIF and by adhering to the Money Management Act. The act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

Concentration of Credit Risk:

Concentration of credit risk the risk of loss attributed to the magnitude of a government's investments in a single issuer. PTIF falls under the constraints of UMMA in limiting concentrations of investments.

NOTE 3 - BOND RESERVES

Escalante City is required to deposit into six reserve funds in connection with their Water Bond issues:

1. Water Reserve Fund - \$150 per month for 120 months to a maximum of \$18,000.
2. Water Emergency Reserve - \$150 per month for 120 months to a maximum of \$18,000.
3. 1998A Water Reserve - \$250 per month for 72 months to a maximum of \$18,000.
4. 1998B Water Reserve - \$150 per month for 120 months to a maximum of \$18,000.
5. 1999 Sewer Reserve - \$237 per month for 72 months to a maximum of \$17,000.
6. 1999 Sewer Emergency Reserve - \$237 per month for 72 months to a maximum of \$17,000.

The reserve funds have met the required amounts at June 30, 2006. The balance in the reserve funds at year end was \$102,500.

ESCALANTE CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	<u>61,100</u>	<u>-</u>	<u>-</u>	<u>61,100</u>
Total Capital Assets Not Being Depreciated	<u>61,100</u>	<u>-</u>	<u>-</u>	<u>61,100</u>
Capital Assets Being Depreciated:				
Buildings	216,000	-	-	216,000
Improvements	850,450	24,650	-	875,100
Equipment	40,000	-	-	40,000
Vehicles	159,350	-	-	159,350
Infrastructure	<u>320,000</u>	<u>-</u>	<u>-</u>	<u>320,000</u>
Total Capital Assets Being Depreciated	<u>1,585,800</u>	<u>24,650</u>	<u>-</u>	<u>1,610,450</u>
Less Accumulated Depreciation For:				
Buildings	75,500	6,200	-	81,700
Improvements	67,174	42,374	-	109,548
Equipment	4,000	4,000	-	8,000
Vehicles	159,350	-	-	159,350
Infrastructure	<u>227,800</u>	<u>16,000</u>	<u>-</u>	<u>243,800</u>
Total Accumulated Depreciation	<u>533,824</u>	<u>68,574</u>	<u>-</u>	<u>602,398</u>
Total Capital Assets Being Depreciated (Net)	<u>1,051,976</u>	<u>(43,924)</u>	<u>-</u>	<u>1,008,052</u>
Governmental Activities Capital Assets, Net	<u>1,113,076</u>	<u>(43,924)</u>	<u>-</u>	<u>1,069,152</u>

ESCALANTE CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 4 - CAPITAL ASSETS (CONTINUED)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Business Type Activities:				
Capital Assets Not Being Depreciated:				
Land	154,744	-	-	154,744
Water Shares	<u>54,000</u>	<u>-</u>	<u>-</u>	<u>54,000</u>
Total Capital Assets Not Being Depreciated	<u>208,744</u>	<u>-</u>	<u>-</u>	<u>208,744</u>
Capital Assets Being Depreciated:				
Equipment	120,300	-	-	120,300
Water System	1,883,200	-	-	1,883,200
Sewer System	<u>2,353,000</u>	<u>-</u>	<u>-</u>	<u>2,353,000</u>
Total Capital Assets Being Depreciated	<u>4,356,500</u>	<u>-</u>	<u>-</u>	<u>4,356,500</u>
Less Accumulated Depreciation For:				
Equipment	65,000	6,000	-	71,000
Water System	610,958	48,700	-	659,658
Sewer System	<u>861,450</u>	<u>58,825</u>	<u>-</u>	<u>920,275</u>
Total Accumulated Depreciation	<u>1,537,408</u>	<u>113,525</u>	<u>-</u>	<u>1,650,933</u>
Total Capital Assets Being Depreciated (Net)	<u>2,819,092</u>	<u>(113,525)</u>	<u>-</u>	<u>2,705,567</u>
Business Type Activities Capital Assets, Net	<u>3,027,836</u>	<u>(113,525)</u>	<u>-</u>	<u>2,914,311</u>
Total Capital Assets	<u><u>4,140,912</u></u>	<u><u>(157,449)</u></u>	<u><u>-</u></u>	<u><u>3,983,463</u></u>

ESCALANTE CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 4 - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions of the Primary Government as follows:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
General Government	46,257	-	46,257
Public Safety	5,430	-	5,430
Public Health	-	113,525	113,525
Parks and Recreation	887	-	887
Highways and Public Improvements	16,000	-	16,000
Total Depreciation Expense	<u>68,574</u>	<u>113,525</u>	<u>182,099</u>

NOTE 5 - ACCOUNTS PAYABLE

Accounts payable represents amounts owed certain vendors at June 30, 2006 and paid in July 2006.

NOTE 6 - LONG-TERM DEBT

General Long-Term Debt

Compensated Absences:

Accrued Vacation and Sick Pay 19,290

The following is a summary of changes in General Long-Term Debt:

	<u>Balance June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>
Compensated Absences	<u>17,873</u>	<u>1,417</u>	<u>-</u>	<u>19,290</u>

Utility Revenue Bonds

Parity Water Revenue Bond - Series 1990:

On August 20, 1990, Escalante City approved and issued a \$270,000 Parity Water Revenue Bond Series 1990, for culinary water system improvements, to be purchased by the Board of Water Resources. The Series 1990 bonds are interest free and shall mature in twenty (20) annual principal installments on January 1st of each year. The principal balance at June 30, 2006, was \$90,000.

ESCALANTE CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 6 - LONG-TERM DEBT (CONTINUED)

The following is a principal payment schedule to maturity:

	<u>Principal</u>
2007	18,000
2008	18,000
2009	18,000
2010	18,000
2011	<u>18,000</u>
Total	<u><u>90,000</u></u>

Sewer Refunding Revenue Bonds:

On May 1, 1996, Escalante City's Sewer Fund issued \$389,000 in sewer refunding revenue bonds with a variable interest rate of approximately 8% to advance refund \$374,000 revenue bonds with rate of 11.22%. The new proceeds of \$389,000 were used to retire the outstanding debt, accrued interest and other issuance costs.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$15,000. The City completed the advance refunding to reduce its total debt service payments over the next eleven years by \$136,700 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$61,507.

The debt service requirements of the Sewer Refunding Revenue Bonds are as follows:

<u>Period Ending</u>	<u>Annual Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
5/1/07	7.750	<u>50,000.00</u>	<u>3,875.00</u>	<u>53,875.00</u>
		<u><u>50,000.00</u></u>	<u><u>3,875.00</u></u>	<u><u>53,875.00</u></u>

ESCALANTE CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Water Revenue Bonds - Series 1998A and 1998B:

On September 2, 1998, Escalante City issued \$270,000 Parity Water Revenue Bonds, Series 1998A to the Utah Permanent Community Impact Board and \$230,000 Parity Water Revenue Bonds, Series 1998B to the Utah State Department of Environmental Quality, Division of Drinking Water.

The bonds were issued for the purpose of partially funding the cost of acquisition of additional water rights, spring development, water storage improvements and distribution system improvements.

The following is a debt service payment schedule to maturity for the \$270,000 Water Revenue Series 1998A, 3%, CIB Bonds:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-2007	12,000	6,510	18,510
2007-2008	12,000	6,150	18,150
2008-2009	12,000	5,790	17,790
2009-2010	13,000	5,430	18,430
2010-2011	13,000	5,040	18,040
2012-2016	71,000	19,140	90,140
2017-2021	84,000	7,710	91,710
Total	<u>217,000</u>	<u>55,770</u>	<u>272,770</u>

The following is a debt service payment schedule to maturity for the \$230,000 Water Revenue Series 1998B, 3.32%, Drinking Water Board Bonds:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-2007	10,000	5,511	15,511
2007-2008	11,000	5,179	16,179
2008-2009	11,000	4,814	15,814
2009-2010	12,000	4,449	16,449
2010-2011	12,000	4,050	16,050
2012-2016	65,000	14,077	79,077
2017-2021	45,000	2,988	47,988
Total	<u>166,000</u>	<u>41,068</u>	<u>207,068</u>

ESCALANTE CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Sewer Revenue Bonds - 1999:

On October 8, 1999, Escalante City issued revenue bonds in the amount of \$563,000 to the Utah State Department of Environmental Quality, Division of Water Quality, for the purpose of financing the cost of acquiring, constructing, improving and extending the sewer system of the City. The bonds require 20 yearly payments including interest at 2%.

The following is a debt service payment schedule to maturity for the \$563,000 Sewer Revenue Series 1999, 2%, Department of Environmental Quality Bonds:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-2007	26,000	8,340	34,340
2007-2008	27,000	7,820	34,820
2008-2009	27,000	7,280	34,280
2009-2010	28,000	6,740	34,740
2010-2011	28,000	6,180	34,180
2012-2016	150,000	22,220	172,220
2017-2021	131,000	6,620	137,620
Total	<u>417,000</u>	<u>65,200</u>	<u>482,200</u>

The following is a summary of utility revenue bonds to maturity:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-2007	116,000	24,236	140,236
2007-2008	68,000	19,149	87,149
2008-2009	68,000	17,884	85,884
2009-2010	71,000	16,619	87,619
2010-2011	71,000	15,270	86,270
2012-2016	286,000	55,437	341,437
2017-2021	260,000	17,318	277,318
Total	<u>940,000</u>	<u>165,913</u>	<u>1,105,913</u>

ESCALANTE CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 6 - LONG-TERM DEBT (CONTINUED)

The following is a schedule of changes in utility revenue bonds payable:

Bond Issue:	Date of Issue	Interest Rate	Total Issued	Outstanding June 30, 2005	Current Year Changes		Outstanding June 30, 2006
					Issued	Matured	
Water Revenue Bonds	1990	0%	270,000	108,000	-	18,000	90,000
Sewer Refunding Revenue Bonds	1996	8%	389,000	97,000	-	47,000	50,000
Water Revenue Bonds Series 1998A	1999	3%	270,000	228,000	-	11,000	217,000
Water Revenue Bonds Series 1998B	1999	3.32%	230,000	176,000	-	10,000	166,000
Sewer Revenue Bonds Series 1999	1999	2%	563,000	443,000	-	26,000	417,000
Total			1,722,000	1,052,000	-	112,000	940,000

ESCALANTE CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 7 - CLASS "C" ROADS

The following is a statement of receipts and disbursements in Class "C" Roads:

Fund Balance - Beginning of Year	276,000
Receipts:	
State of Utah	57,003
Interest	<u>10,926</u>
Total Receipts	67,929
Disbursements	<u>(133,929)</u>
Fund Balance - End of Year	<u><u>210,000</u></u>

NOTE 8 - IMPACT FEES

Effective February 15, 2000, the City adopted an impact fee ordinance for the purpose of requiring that existing, as well as new, development pay for the fair share of public facilities through impact fees which will be used to finance, defray or reimburse the City for all or a portion of the cost of public facilities which serve such development. The amount of the impact fee was to be calculated and based on the impact of new development on public facilities.

The impact fees were based on the following schedule:

<u>Capital Facility</u>	<u>Cost of Impact Fee Per Residential Unit</u>
Culinary Water Source, Storage and Distribution	1,000
Wastewater Collection and Treatment	<u>1,000</u>
Total of All Impact Fees	<u><u>2,000</u></u>

During the current year no water impact fees were collected and no sewer impact fees were collected. All water and sewer impact fees collected have been expended on appropriate projects.

ESCALANTE CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 9 - MUNICIPAL SOLID WASTE LANDFILL - CLOSURE AND POSTCLOSURE CARE COST

State and federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site. Closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste. The landfill began accepting waste in mid 1995. The annual estimated postclosure care costs were estimated to cost \$500 annually for five years. Closure costs have been estimated at \$2,500. These amounts are based on what it would cost to perform all closure and postclosure care when the landfill is filled to capacity. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The City is required by State and Federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The City is in compliance with these requirements, and has established a trust fund in the amount of \$2,500. Money deposited in the trust fund will be used exclusively for closure, postclosure care, and corrective action. Interest earned on the fund will be deposited to the Trust Fund. The fund will be evaluated on an annual basis and may be increased as needed by resolution. The balance at year end was \$2,828.75.

NOTE 10 - PENSION PLAN

Local Governmental - Cost Sharing:

Plan Description:

Escalante City contributes to the Local Governmental Noncontributory Retirement System which is a cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems (Systems). The System provides refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Act in Chapter 49 provides for the administration of the Utah Retirement Systems and plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that included financial statements and required supplementary information for the State and School Contributory Retirement System and State and School Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy:

Escalante City is required to contribute a percent of covered salary to the respective systems; 11.90% to the Noncontributory System. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

ESCALANTE CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 10 - PENSION PLAN (CONTINUED)

Escalante City contributions to the various systems for the years ending June 30, 2006, 2005 and 2004 respectively were; for the Noncontributory System, \$15,813.28, \$13,935.23 and \$11,013.70, respectively. The contributions were equal to the required contributions for each year.

NOTE 11 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in the Utah Risk Management Mutual Association (URMMA). Through URMMA, the City maintains general liability, errors and omissions, newly acquired property, builders risk, unscheduled locations crime and boiler machinery coverage. URMMA does not provide coverage for all risks and hazards, however, the City has obtained coverage for these risks through other commercial carriers for employee accidental death and dismemberment, workers compensation and surety bond coverage.

The City provided medical and health coverage through a policy with Blue Cross and Blue Shield of Utah. The maximum out-of-pocket expense per person per year is \$250 deductible or \$750 deductible per family per year. After deductible, Blue Cross and Blue Shield of Utah pays 80% and member pays 20% of eligible medical expenses.

Claims have not exceeded coverage in any of the last three calendar years.

**REQUIRED SUPPLEMENTARY
INFORMATION
"UNAUDITED"**

**ESCALANTE CITY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

For The Fiscal Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>(Budgetary Basis)</u> <u>(See Note A)</u>	<u>Variance With</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Budgetary Fund Balance, July 1, 2005	<u>318,794</u>	<u>318,794</u>	<u>318,794</u>	<u>-</u>
Resources (Inflows):				
Taxes:				
General Property Taxes	89,000	92,000	83,747	(8,253)
Prior Years Taxes	150	-	6,687	6,687
Fee-In-Lieu	24,000	17,000	16,421	(579)
General Sales and Use Taxes	85,000	89,000	97,960	8,960
Innkeeper Tax	7,000	7,791	7,791	-
Recreation	11,500	11,500	11,310	(190)
Franchise Taxes	<u>25,000</u>	<u>30,000</u>	<u>31,901</u>	<u>1,901</u>
Total Taxes	<u>241,650</u>	<u>247,291</u>	<u>255,817</u>	<u>8,526</u>
Licenses and Permits	<u>6,020</u>	<u>4,083</u>	<u>4,083</u>	<u>-</u>
Intergovernmental Revenue:				
Class C Road	61,000	67,307	57,003	(10,304)
State Liquor Allotment	1,390	1,390	1,780	390
Federal Grants	-	25,072	25,072	-
State and Local Shared Revenue	<u>5,500</u>	<u>19,921</u>	<u>19,922</u>	<u>1</u>
Total Intergovernmental Revenue	<u>67,890</u>	<u>113,690</u>	<u>103,777</u>	<u>(9,913)</u>
Fines and Forfeitures	<u>8,000</u>	<u>34,000</u>	<u>34,036</u>	<u>36</u>
Miscellaneous:				
Interest	13,000	29,000	28,993	(7)
Rents and Concessions	7,000	6,200	6,505	305
Sundry	9,000	26,000	15,447	(10,553)
Use of Fund Balance	<u>-</u>	<u>125,500</u>	<u>-</u>	<u>(125,500)</u>
Total Miscellaneous Revenue	<u>29,000</u>	<u>186,700</u>	<u>50,945</u>	<u>(135,755)</u>
Amounts Available for Appropriation	<u>671,354</u>	<u>904,558</u>	<u>767,452</u>	<u>(137,106)</u>

**ESCALANTE CITY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

For The Fiscal Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>(Budgetary Basis)</u> <u>(See Note A)</u>	<u>Variance With</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Charges to Appropriations (Outflows):				
General Government:				
Administration	141,460	190,204	184,334	5,870
Legislative	8,100	7,900	7,840	60
Court	12,500	23,232	24,970	(1,738)
Total General Government	<u>162,060</u>	<u>221,336</u>	<u>217,144</u>	<u>4,192</u>
Public Safety:				
Police	35,000	43,717	41,310	2,407
Fire	29,300	54,500	39,501	14,999
Total Public Safety	<u>64,300</u>	<u>98,217</u>	<u>80,811</u>	<u>17,406</u>
Highway and Public Improvements:				
Highways and Streets	61,500	68,924	84,239	(15,315)
Class C Roads	61,000	192,807	133,929	58,878
Total Highways and Public Improvements	<u>122,500</u>	<u>261,731</u>	<u>218,168</u>	<u>43,563</u>
Culture and Recreation:				
Parks and Recreation	3,700	4,480	4,365	115
Total Charges to Appropriations	<u>352,560</u>	<u>585,764</u>	<u>520,488</u>	<u>65,276</u>
Budgetary Fund Balance - June 30, 2006	<u>318,794</u>	<u>318,794</u>	<u>246,964</u>	<u>(71,830)</u>

ESCALANTE CITY
NOTE A
BUDGETARY COMPARISON SCHEDULE
BUDGET-TO-GAAP RECONCILIATION

For The Fiscal Year Ended June 30, 2006

	<u>General Fund</u>
Sources/Inflows and Resources:	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedules.	767,452
Differences - Budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes.	<u>(318,794)</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds.	<u><u>448,658</u></u>
Uses/Outflows of Resources:	
Actual amounts (budgetary Basis "total charges to appropriations" from the budgetary comparison schedules.	520,488
Differences - Budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting pruposes.	<u>-</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u><u>520,488</u></u>

COMPLIANCE SECTION

Kimball & Roberts

Certified Public Accountants

A Professional Corporation

Box 663

Richfield, Utah 84701

Phone 896-6488

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and City Council
Escalante City
Escalante, Utah 84726

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Escalante City as and for the year ended June 30, 2006, which collectively comprise Escalante City's basic financial statements and have issued our report thereon dated October 4, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Escalante City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

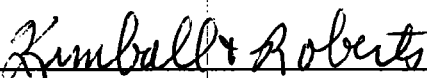
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Escalante City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of Escalante City in a separate letter dated October 4, 2006.

Honorable Mayor and City Council
Escalante City
Page -2-

This report is intended solely for the information and use of management and City Council and is not intended to be and should not be used by anyone other than these specified parties.


KIMBALL & ROBERTS, P. C.
Certified Public Accountants

October 4, 2006
Richfield, Utah

Kimball & Roberts

Certified Public Accountants

A Professional Corporation

Box 663

Richfield, Utah 84701

Phone 896-6488

AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE

Honorable Mayor and City Council
Escalante City
Escalante, Utah 84726

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Escalante City, for the fiscal year ended June 30, 2006, and have issued our report thereon dated October 4, 2006. As part of our audit, we have audited Escalante City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the fiscal year ended June 30, 2006. The City received the following major State assistance programs from the State of Utah:

C Road Funds (Department of Transportation)
Liquor Law Enforcement (State Tax Commission)

The City also received the following nonmajor grant, which is not required to be audited for specific compliance requirements: (However, this program was subject to testwork as part of the audit of Blanding City's financial statements.)

Pavilion Grant (Department of Transportation)

Our audit also included testwork on the City's compliance with those general compliance requirements identified in the Compliance Manual for Audits of Local Governments in Utah including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Property Tax
Other Compliance Requirements

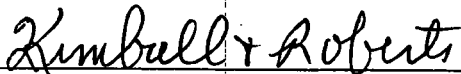
The management of Escalante City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

Honorable Mayor and City Council
Escalante City
Page -2-

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in a separate management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Escalante City, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to its major State assistance programs for the fiscal year ended June 30, 2006.



KIMBALL & ROBERTS, P. C.
Certified Public Accountants

October 4, 2006
Richfield, Utah

ESCALANTE CITY
MANAGEMENT LETTER
JUNE 30, 2006

Kimball & Roberts

Certified Public Accountants

A Professional Corporation

Box 663

Richfield, Utah 84701

Phone 896-6488

FINDINGS AND RECOMMENDATIONS

Honorable Mayor and City Council
Escalante City
Escalante, Utah 84726

During our audit of the funds of Escalante City for the fiscal year ended June 30, 2006, we noted an area needing corrective action in order for the City to be in compliance with state laws and regulations. This item is discussed below for your consideration.

COMPLIANCE:

General Compliance B and C Road Funds

Finding:

In our tests of C Road Funds we noted that bids for type "A" chips were obtained without advertising for bids in a newspaper of general circulation in the County in which such work is to be performed at least once a week for three consecutive weeks.

Recommendation:

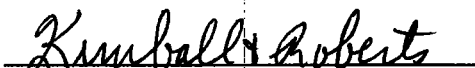
We recommend that when projects estimated to cost more than \$125,000 for Class C Roads are to be done the project should be advertised in a newspaper of general circulation in the County in which such work is to be performed at least once a week for three consecutive weeks. Also, sealed bids should be received by the governing officials and opened at the time and place designated in the advertisement.

Response:

We have reviewed the above finding with management and management concurred with the recommendation.

We would like to take this opportunity to thank Escalante City's personnel for the cooperation and assistance given to us during the course of our examination.

Respectfully submitted,



KIMBALL & ROBERTS
Certified Public Accountants

October 4, 2006
Richfield, Utah

Kimball & Roberts

Certified Public Accountants

A Professional Corporation

Box 663

Richfield, Utah 84701

Phone 896-6488

FINDINGS AND RECOMMENDATIONS

Honorable Mayor and City Council
Escalante City
Escalante, Utah 84726

During our audit of the funds of Escalante City for the fiscal year ended June 30, 2006, we noted an area needing corrective action in order for the City to be in compliance with state laws and regulations. This item is discussed below for your consideration.

COMPLIANCE:

General Compliance B and C Road Funds

Finding:

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Recommendation:

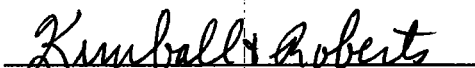
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Response:

We have reviewed the above finding with management and management concurred with the recommendation.

We would like to take this opportunity to thank Escalante City's personnel for the cooperation and assistance given to us during the course of our examination.

Respectfully submitted,



KIMBALL & ROBERTS
Certified Public Accountants

October 4, 2006
Richfield, Utah

Kimball & Roberts

Certified Public Accountants

A Professional Corporation

Box 663

Richfield, Utah 84701

Phone 896-6488

FINDINGS AND RECOMMENDATIONS

Honorable Mayor and City Council
Escalante City
Escalante, Utah 84726

During our audit of the funds of Escalante City for the fiscal year ended June 30, 2006, we noted an area needing corrective action in order for the City to be in compliance with state laws and regulations. This item is discussed below for your consideration.

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General Compliance B and C Road Funds

Finding:

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Recommendation:

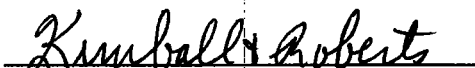
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Response:

We have reviewed the above finding with management and management concurred with the recommendation.

We would like to take this opportunity to thank Escalante City's personnel for the cooperation and assistance given to us during the course of our examination.

Respectfully submitted,



KIMBALL & ROBERTS
Certified Public Accountants

October 4, 2006
Richfield, Utah

Kimball & Roberts

Certified Public Accountants

A Professional Corporation

Box 663

Richfield, Utah 84701

Phone 896-6488

FINDINGS AND RECOMMENDATIONS

Honorable Mayor and City Council
Escalante City
Escalante, Utah 84726

During our audit of the funds of Escalante City for the fiscal year ended June 30, 2006, we noted an area needing corrective action in order for the City to be in compliance with state laws and regulations. This item is discussed below for your consideration.

COMPLIANCE:

General Compliance B and C Road Funds

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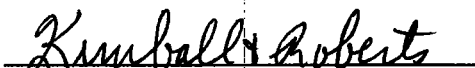
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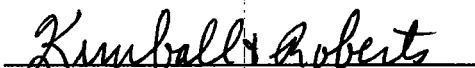
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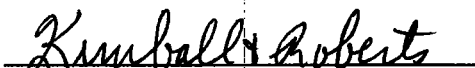
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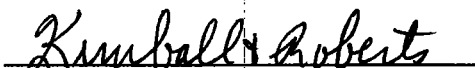
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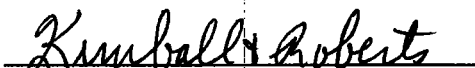
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